

**INDEPENDENCE LIGHT AND POWER,  
TELECOMMUNICATIONS  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**DECEMBER 31, 2009 AND 2008**

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# INDEPENDENCE LIGHT AND POWER, TELECOMMUNICATIONS

## Officials

### Board of Trustees

William J. Hickey  
Robert M. Cook  
Brian Meyer  
Bryan Palmer  
Stephen Elliott

Chairperson  
Secretary-Treasurer  
Trustee  
Trustee  
Trustee

### Utility Officials

Darrel Wenzel  
Ronald Curry  
Kevin Sidles  
Judy Latwesen  
William Runge

General Manager  
Assistant General Manager  
Line Superintendent  
Office Manager  
Telecommunications-Superintendent

### City Council

Frank Brimmer  
Paul Paisley  
Mike Hayward  
Arletta Schweitzer  
Carl Scharff  
Cheryl Hand  
Bob Hill  
Richard Engen

Mayor  
Council Member  
Council Member  
Council Member  
Council Member  
Council Member  
Council Member  
Council Member

### City Officials

Barbara Rundle  
Carter Stevens

City Clerk  
City Attorney

Alan W. Flick, C.P.A.  
Gina E. Trimble, C.P.A.

Independent Auditor's Report

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Independence, IA 50644  
(319)334-4211  
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To the Board of Trustees  
Independence Light and Power, Telecommunications  
Independence, Iowa 50644

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of Independence Light and Power, Telecommunications (a municipal utility), a component unit of the City of Independence, Iowa, as of and for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the management of Independence Light and Power, Telecommunications. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities, each major fund and the aggregate remaining fund information of the Independence Light and Power, Telecommunications as of December 31, 2009 and 2008, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated May 18, 2010 on our consideration of the Independence Light and Power, Telecommunications' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 16 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independence Light and Power, Telecommunications' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended December 31, 2006, 2007 and 2008 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Ridihalgh, Fuelling, Snitker, Weber & Co. P.C.*

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., C.P.A.'S

May 18, 2010

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Independence Light and Power, Telecommunications (the Utility) provides this Management's Discussion and Analysis of its annual financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2009. The Independence Light and Power, Telecommunications provides electrical, cable, internet, and telephone services to the citizens of the City of Independence (the City) and is a component unit of the City. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### **2009 FINANCIAL HIGHLIGHTS**

- Revenues of the Utility for 2009 were \$9,580,550. This is an increase over revenues in 2008 of 4%.
- Disbursements for 2009 totaled \$9,349,299. This is an increase of approximately 3% from 2008.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis – This introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.
- The Basic Financial Statements – These consist of the Statement of Net Assets, Statement of Revenues and Expenses and Changes in Net Assets, Statement of Cash Flows, and Notes to the Financial Statements. The previous mentioned financial statements provide information about the activities of the Utility as a whole and present an overall view of the Utility's finances. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Supplemental Information – This provides additional information about the Utility's financial activities in addition to the basic financial statements.

### **BASIS OF ACCOUNTING**

The Utility maintains its financial records on the accrual basis of accounting which is in conformity with U.S. generally accepted accounting principals. The accounting records are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

### **FINANCIAL ANALYSIS OF THE UTILITY**

Net Assets may serve over time as a useful indicator of financial position. The Utility's Net Assets, including a prior period adjustment, increased by \$252,101 from 2008 to 2009.

#### **Assets, Liabilities, and Net Assets**

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets	\$ 2,445,520	2,662,822
Capital Assets:		
Capital Assets	24,333,314	23,919,108
Less: Accumulated depreciation	(12,927,714)	(12,027,791)
Total Capital Assets	11,405,600	11,891,317
Board Designated Funds	4,409,493	3,848,645
Other Assets	-	-
Total Assets	<u>\$ 18,411,774</u>	<u>18,402,784</u>

Liabilities		
Current Liabilities	\$ 1,837,560	1,652,556
Other Liabilities:		
Accrued retirement insurance	503,341	506,401
Note payable – BankIowa	185,390	274,449
Electric revenue project note payable	4,475,507	4,796,767
Less: Current portion of long-term debt	( 336,650)	( 321,914)
Total Other Liabilities	<u>4,827,588</u>	<u>5,255,703</u>
Total Liabilities	6,665,148	6,908,259
Net Assets	<u>11,746,626</u>	<u>11,494,525</u>
Total Liabilities and Net Assets	<u>\$ 18,411,774</u>	<u>18,402,784</u>

### Revenues, Expenses and Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Revenues:		
Sales to Customers	\$ 9,371,690	8,963,269
Miscellaneous Operating Revenue	78,302	86,839
Interest Income	109,484	153,321
Miscellaneous Revenue	21,074	38,985
Gain on Disposal of Assets	<u>-</u>	<u>-</u>
Total Revenue	<u>9,580,550</u>	<u>9,242,414</u>
Expenses:		
Generation Expenses	4,732,612	4,708,320
Distribution Expenses	364,636	393,198
Customer Accounts Expense	111,143	116,482
Administration and General Expense	1,088,791	901,871
Cable and Internet Expenses	1,600,829	1,463,439
Depreciation and Amortization	903,147	888,585
Benefits to Community and City	333,982	336,983
Interest Expense	211,176	222,939
Loss on Disposal of Assets	<u>2,983</u>	<u>26,828</u>
Total Expenses	<u>9,349,299</u>	<u>9,058,645</u>
Changes in Net Assets	231,251	183,769
Net Assets at Beginning of Year	<u>11,494,525</u>	<u>11,310,756</u>
Prior period adjustment	20,850	-
Net Assets at End of Year	<u>\$ 11,746,626</u>	<u>11,494,525</u>

### BUDGETARY HIGHLIGHTS

The Utility prepared and adopted the annual budget on December 8, 2008, which designated the amounts necessary for the improvement and maintenance of the Utility. There was one budget amendment to the Telecommunications budget on December 7, 2009. The Utility did not exceed its budgeted expenditures for the year ended December 31, 2009.

### DEBT ADMINISTRATION

At December 31, 2009, the Utility had long-term debt in the amount of \$4,660,897. During 2009, the Utility repaid \$410,319 of long-term debt.

## **BACKGROUND OF INDEPENDENCE LIGHT AND POWER, TELECOMMUNICATIONS**

In 1893, the citizens of Independence voted by a 572 majority to build a municipal light plant. This building was located where Veterans Park is today. The flood of 1947 caused damage to the plant so they decided to move to a better location. In 1948, construction began on a new building at the present site. At that time the Mayor and City Council governed the Light Plant. In 1961 the City voted to have the Light Plant governed by a board of trustees.

During the construction of this building, two new Superior 1000kw generators were installed. After these generators became operational they moved two Worthington generators from the old plant. These units have since been removed to make room for new Caterpillar generators.

As the City grew the demand for electricity also grew, so additional generation had to be added. In 1957, a twenty-foot addition was added to the west side of the building to make room for the installation of a 2500kw Worthington generator. In 1964, another addition was added to the west allowing space for two additional generators. At this time a 3200kw Worthington generator was installed. In 1973, a 6250kw Worthington generator was installed and a new Control Room was added to the south side of the building.

In 1975, the interconnection with Interstate Power Company was installed. This meant that the plant went to a standby status and power was purchased from Interstate Power Company. Power was generated during times of high usage and during emergencies. Presently we are still in a standby status, but now we purchase power from Wisconsin Public Power Inc. We became a member of this regional joint action agency in May of 2006.

In October of 1979 the Line Shop moved to their present location. In 1987, we began to upgrade the electrical distribution system from 2400 volts to 12,470 volts. This upgrade was completed in January of 2002. In order to better serve our customers, a drive-thru pay window was installed in 1992 and the billing functions were moved from City Hall to the plant.

In 1995, two 1860kw Caterpillar generators were installed in place of the 1935 generators. In March of 1999, the 1939 generator was also removed to make room for additional Caterpillar generators. In May of 2000 three 1860kw Caterpillar generators came on line. In 2007 one of the Superior generators was retired and currently the total generating capacity of the plant is 22,250kw.

In November of 1997 by a majority vote, the citizens of Independence approved the formation of a telecommunications company. A new administration building was built across the street from the plant and in May of 2000 the office and management personnel moved in. The vacated office area at the plant was remodeled for the new telecommunications equipment. Cable TV became operational in December of 2000, internet in May of 2001, and digital telephone service was launched in October of 2006.

In June of 2003 work began on the site of the west substation. This substation was installed to handle the continued growth west of the river. It will also be used to serve the entire town if the east substation needs to be taken out of service. We are continuing to stay abreast with our customers' needs and keeping a watchful eye to the future. Our goal is the same as our founders, to deliver dependable low cost power to all citizens well into the future.

## **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Darrel Wenzel, General Manager, P.O. Box 754, Independence, IA 50644.

INDEPENDENCE LIGHT & POWER  
Independence, Iowa  
ANALYSIS OF KILOWATT HOURS AND BILLINGS  
For the Year Ended December 31, 2009  
(unaudited)

	KWH Billed	Amount Billed	Revenue in cents/KWH	% KWH to Total	% Revenues to Total	Number of Accts
Type of Service:						
Residential Service	20,079,480	3,238,703	16.13	35.43%	46.91%	2,720
Security Lights	175,961	28,643	16.28	0.31%	0.41%	
Commercial Service	10,259,191	1,298,873	12.66	18.10%	18.81%	375
Demand Power	22,952,060	1,999,374	8.71	40.49%	28.96%	24
Total to Customers	53,466,692	6,565,592	12.28	94.33%	95.09%	3,119
Municipal Sales:						
Street Lighting	716,988	85,896	11.98	1.26%	1.24%	1
City Bldgs, Parks, Water Pumping	884,692	110,676	12.51	1.56%	1.60%	27
City Demand Power	1,427,920	117,145	8.20	2.52%	1.70%	2
Plant Lights, Office & Line Shop	183,234	0	0.00	0.32%	0.00%	
Total Municipal	3,212,834	313,717	9.76	5.67%	4.54%	30
Power Cost Adjustment	n/a	25,478	0.05	n/a	0.37%	
TOTALS	56,679,526	6,904,788	12.18	100.00%	100.00%	3,149

Analysis of Energy Generated:

Kilowatt Hours Generated	234,917
Less KWH Consumed by Station	503,514
KWH to Distribution Feeders	-268,597
KWH Purchased	60,227,746
Total	59,959,149
Kilowatt Hours Billed and Metered	56,679,526
Line Loss in Kilowatts	3,279,623
Line Loss as a Percent to Total	5.47%

Revenue by Category: Power Cost Adjustment Separate

	January	February	March	April	May	June	July	August	September	October	November	December	Total	Total for acct
Residential	2,051,983	2,106,543	1,751,768	1,459,218	1,409,082	1,382,469	1,699,999	1,797,838	1,925,734	1,475,771	1,513,099	1,496,578	20,070,082	20,079,480
Power Cost Adjustment								9,398					9,398	
Commercial	884,504	909,654	836,712	761,547	771,653	818,981	907,778	929,552	968,130	846,558	835,056	784,134	10,254,259	10,259,191
Power Cost Adjustment								4,932					4,932	
Industrial	1,929,880	2,044,340	1,681,940	1,746,020	1,827,360	1,788,180	1,851,160	1,935,861	2,104,580	2,000,640	2,156,540	1,875,440	22,941,941	22,952,060
Power Cost Adjustment								10,119					10,119	
Security Lites	15,942	19,270	14,419	14,334	14,335	14,143	14,282	13,843	13,702	13,788	13,803	14,100	175,961	175,961
Street/HWY	59,749	59,749	59,749	59,749	59,749	59,749	59,749	59,749	59,749	59,749	59,749	59,749	716,988	1,601,272
City Comm	79,930	80,289	64,599	62,467	61,767	87,093	93,293	92,083	75,569	59,766	61,593	65,835	884,284	884,692
Power Cost Adjustment								408					408	
City Demand	122,960	132,240	116,160	114,480	122,800	115,680	112,800	118,739	123,280	111,040	132,000	105,120	1,427,299	1,427,920
Power Cost Adjustment								621					621	
	5,144,948	5,352,085	4,525,347	4,217,815	4,266,746	4,266,295	4,739,061	4,973,143	5,270,744	4,567,312	4,771,840	4,400,956	56,496,292	56,496,292

INDEPENDENCE LIGHT & POWER  
Independence, Iowa  
ENERGY AND REVENUE ACCOUNTING REPORT  
For Years Ended December 31, 2009, 2008, 2007, 2006  
(unaudited)

	2009		2008		2007		2006	
	KWH	%	KWH	%	KWH	%	KWH	%
1. Total Gross Energy (all sources; % of previous year)	60,462,663	95.1%	63,581,565	101.0%	62,960,189	95.3%	66,061,550	84.2%
2. Purchased Energy (% of line 1)	60,227,746	99.6%	63,416,663	99.7%	61,219,999	97.2%	65,532,860	99.2%
3. Total Gross Energy Generated (line 1 - line 2)	234,917	100.0%	164,902	100.0%	1,740,190	100.0%	528,690	100.0%
4. Energy Consumed by Station (% of line 3)	503,514	214.3%	494,250	299.7%	509,999	29.3%	519,574	98.3%
5. Total Net Energy Generated	-268,597	-114.3%	-329,348	-199.7%	1,230,191	70.7%	9,116	1.7%
6. Total Net Energy Outgoing Feeders	59,959,149	100.0%	63,087,315	100.0%	62,450,190	100.0%	65,541,976	100.0%
7. Net Distributed Energy (% of line 6)	56,679,526	94.5%	59,741,896	94.7%	59,212,991	94.8%	62,089,175	94.7%
8. Energy Lost in Distribution System (% of line 6)	3,279,623	5.47%	3,345,419	5.30%	3,237,199	5.18%	3,452,801	5.27%
ENERGY CONSUMED BY EACH SERVICE AND PERCENT CHANGE IN CONSUMPTION:								
	KWH	% Change	KWH	% Change	KWH	% Change	KWH	% Change
Residential Service	20,079,480	-5.2%	21,173,027	-2.8%	21,793,745	3.1%	21,137,640	-1.3%
Commercial Service	10,259,191	-2.1%	10,483,009	-2.8%	10,789,529	-0.8%	10,871,727	-4.1%
Demand Power	22,952,060	-6.6%	24,582,420	5.7%	23,254,180	-13.2%	26,799,440	-29.7%
Security Lights	175,961	-7.2%	189,526	1.1%	187,489	-0.6%	188,631	0.9%
City Bldgs, Parks, Water Pump, Traffic Signals	884,692	0.8%	877,646	3.2%	850,186	-2.0%	867,447	-2.2%
City Demand Accts: WWTP, Pump Station, Shop	1,427,920	-6.9%	1,534,480	6.9%	1,435,360	7.0%	1,341,040	-1.0%
Street Lights	716,988	0.0%	716,988	0.1%	716,538	1.5%	706,128	0.1%
Plant Lights, Office & Line Shop	183,234	-0.8%	184,800	-0.6%	185,964	5.0%	177,122	25.9%
TOTAL	56,679,526	-5.1%	59,741,896	0.9%	59,212,991	-4.6%	62,089,175	-16.3%
ELECTRIC SALES INCLUDING AVERAGE UNIT REVENUE PER KWH:								
	Billings	Per Unit Revenue In Cents	Billings	Per Unit Revenue In Cents	Billings	Per Unit Revenue In Cents	Billings	Per Unit Revenue In Cents
Residential Service	3,248,101	16.18	3,010,313	14.22	3,007,104	13.80	2,633,633	12.46
Commercial Service	1,303,940	12.71	1,196,417	11.41	1,189,782	11.03	1,099,118	10.11
Demand Power	2,009,493	8.76	1,991,686	8.10	1,853,889	7.97	1,984,296	7.40
Security Lights	28,728	16.33	25,887	13.66	23,683	12.63	18,504	9.81
City Bldgs, Parks, Water Pump, Traffic Signals	111,084	12.56	99,267	11.31	93,038	10.94	87,271	10.06
City Demand Accts: WWTP, Pump Station, Shop	117,766	8.25	120,000	7.82	107,868	7.52	94,627	7.06
Street Lights	85,896	11.98	78,152	10.90	75,739	10.57	67,707	9.59
TOTAL	6,905,008	12.18	6,521,722	10.92	6,351,103	10.73	5,985,156	9.64

INDEPENDENCE LIGHT & POWER  
Independence, Iowa  
UTILITY STATISTICS AND OPERATING INFORMATION  
For Years Ended December 31, 2009, 2008, 2007, 2006  
(unaudited)

				2009	2008	2007	2006
Gene No.	Unit Year	Fuel	KW Capacity	KWH Generated	KWH Generated	KWH Generated	KWH Generated
1	1949	Oil	1,000	0	0	8,000	15,000
1A	2000	Oil	1,860	25,365	12,901	189,405	41,233
2	1949 out of service 4/07			0	0	4,000	12,000
3A	1996	Oil	1,860	22,000	21,000	186,000	44,000
3B	1996	Oil	1,860	22,000	21,000	185,000	44,000
4A	2000	Oil	1,860	26,116	13,035	189,708	41,201
4B	2000	Oil	1,860	25,436	12,966	142,077	41,256
5	1957	Dual	2,500	22,000	18,000	97,000	59,000
6	1964	Dual	3,200	30,000	19,000	148,000	92,000
7	1973	Dual	6,250	62,000	47,000	591,000	139,000
TOTAL CAPACITY & KWH GENERATE				22,250	234,917	1,740,190	528,690
PURCHASED KILOWATT HOURS				60,227,746	63,416,663	61,219,999	65,532,860
TOTAL KWH				60,462,663	63,581,565	62,960,189	66,061,550
Unit No.	Type Fuel	Hours Operated	Operating Capacity	Hours Operated	Operating Capacity	Hours Operated	Operating Capacity
1	Oil	0	0%	0	0%	15	53%
1A	Oil	15.5	88%	8.25	84%	114	89%
2	out of service 4/07	0	#DIV/0!	0	0%	7	0%
3A	Oil	13.5	88%	12.75	89%	112.25	89%
3B	Oil	13.5	88%	12.75	89%	112.25	89%
4A	Oil	15.5	91%	8.25	85%	114	89%
4B	Oil	15.5	88%	8.25	84%	86	89%
5	Oil & Gas	11.75	75%	8	90%	54.5	71%
6	Oil & Gas	11.75	80%	8	74%	57.25	81%
7	Oil & Gas	11.75	84%	9	84%	113.25	83%
TOTAL PLANT FUEL CONSUMPTION FOR ENERGY GENERATION ONLY				Oil 17,028 gal	11,995 gal	124,080 gal	38,695 gal
TOTAL & UNIT COST FOR ENERGY GENERATION ONLY				Oil 36,749 0	26,455 2.205 0	209,537 1.689 0	61,800 1.597 0
TOTAL UNIT OPERATING COST (omit interest, depreciation & taxes)				Total Cost 36,876	Total Cost 27,256	Total Cost 212,271	Total Cost 61,920
Total Fuel Cost for Energy Generated				15.70	16.53	12.20	11.71
Purchased Power Cost				7.18	6.76	6.38	5.08
Generation & Purchased Cost to Feeders				7.88	7.44	7.41	5.61
Generation & Purchased Cost to Consumers				8.34	7.86	7.81	5.92
Distribution Cost to Consumers				0.71	1.19	0.64	0.56
Accounting & Collection Expenses to Consumers				0.20	0.19	0.18	0.16
Office Admin. & General Expenses to Consumers				1.93	1.75	1.58	1.42
Total Delivered Cost to Consumers				11.17	10.99	10.21	8.06
MAXIMUM DEMAND ON PLANT (MOMENTARY)				12,720 KW	12,410 KW	13,398 KW	15,030 KW
Maximum Momentary Demand				06/23/09 3:35 PM	07/29/08 4:15 PM	08/28/07 4:00PM	07/31/06 4:00PM
Month, Day & Hour of Occurrence							

INDEPENDENCE LIGHT & POWER  
Independence, Iowa  
(unaudited)

**Electric Rate Schedule**

Effective January 1, 2009

Residential:	Service Charge	\$12.00
	All kWh	\$0.1424
Commercial:	Service Charge	\$17.00
	All kWh	0.1196
Industrial:	Service Charge	\$120.00
	Demand Charge	\$10.00 per KW
	All kWh	\$0.0590

An energy cost adjustment is made monthly to the above rates based on the utility's kWh sales and power costs.

**Security Lighting Monthly Rental Fees**

Effective January 1, 2009

100 Watt High Pressure Sodium	8.50
250 Watt High Pressure Sodium	12.75
400 Watt High Pressure Sodium	16.25
400 Watt Metal Halide	12.75

**INDEPENDENCE LIGHT AND POWER**  
**Independence, Iowa**

**MONTHLY & YEARLY PEAK LOAD IN KILOWATTS**  
**For the Year Ended December 31, 2009**  
**(unaudited)**

<b>Date</b>	<b>KW</b>	<b>Time</b>	<b>Day</b>
January 16	9,470	9:50 AM	Friday
February 2	9,120	6:25 PM	Monday
March 11	9,100	7:35 AM	Wednesday
April 6	8,200	8:45 AM	Monday
May 21	8,240	1:00 PM	Thursday
June 23	12,720	3:35 PM	Tuesday
July 6	10,570	4:30 PM	Monday
August 14	11,970	3:20 PM	Friday
September 11	9,530	2:20 PM	Friday
October 12	8,640	11:30 AM	Monday
November 24	8,920	11:35 AM	Tuesday
December 15	10,140	5:30 PM	Tuesday

**2009 Peak for the Year**

June 23	12,720	3:35 PM
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**Comparison**

2008 Peak	12,410
2007 Peak	13,398
2006 Peak	15,030
2005 Peak	16,580
2004 Peak	15,500
2003 Peak	17,000
2002 Peak	15,500
2001 Peak	16,310
2000 Peak	16,030
1999 Peak	16,310
1998 Peak	13,836
1997 Peak	13,950
1996 Peak	14,000
1995 Peak	15,800
1994 Peak	12,500
1993 Peak	12,600
1992 Peak	10,500

# INDEPENDENCE LIGHT & POWER

Independence, Iowa

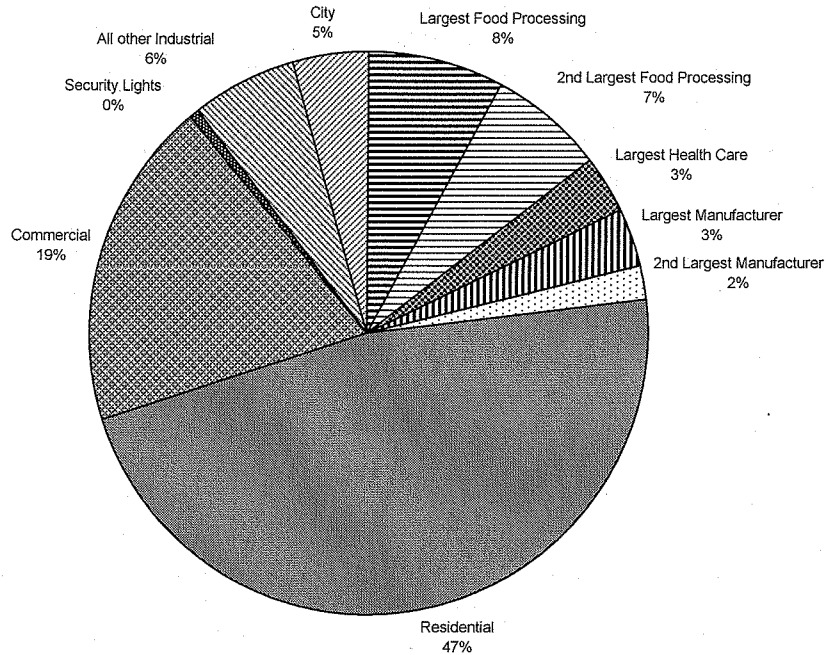
## TEN LARGEST INDUSTRIAL CUSTOMERS

December 31, 2009

(unaudited)

Ranking:	Customer	KWh Metered	Revenue	% of Total Revenue
		At Industrial Rate		
1	Food Processing	7,384,080	\$598,721	11.0%
2	Food Processing	5,111,240	\$445,670	8.2%
3	Health Care	2,734,420	\$222,363	4.1%
4	Manufacturing	1,866,080	\$180,118	3.3%
5	Manufacturing	1,662,200	\$144,547	2.7%
6	Government	1,428,284	\$117,766	2.2%
7	Education	1,064,360	\$113,723	2.1%
8	Retail	629,440	\$56,898	1.0%
9	Food Processing	492,920	\$49,986	0.9%
10	Retail	257,800	\$30,346	0.6%
Total of Ten Largest		22,630,824	\$1,960,139	36.0%

**INDEPENDENCE LIGHT & POWER**  
**Independence, Iowa**  
**2008 REVENUE BREAKDOWN**  
**Shows 5 Largest Customers Individually**  
**(unaudited)**



Customer		KWh	Revenue	% of Total Revenue
1	Largest Food Processing	7,010,720	\$542,952	7.86%
2	2nd Largest Food Processing	5,455,360	\$458,448	6.64%
3	Largest Health Care	3,001,940	\$224,427	3.25%
4	Largest Manufacturer	2,838,800	\$229,253	3.32%
5	2nd Largest Manufacturer	1,666,300	\$135,693	1.97%
All Others	Residential	20,079,480	\$3,248,101	47.04%
	Commercial	10,259,191	\$1,303,805	18.88%
	Security Lights	175,961	\$28,643	0.41%
	All other Industrial	2,978,940	\$418,720	6.06%
	City	3,029,600	\$314,746	4.56%
Total Sales		56,496,292	\$6,904,788	100.00%

## **Basic Financial Statements**

Independence Light and Power, Telecommunications

Statement of Net Assets

December 31, 2009 and 2008

ASSETS:	2009	2008
Current Assets:		
Cash	\$ 941,700	\$ 1,030,509
Accounts receivable, net	763,769	753,714
Unbilled revenues receivable	199,452	337,382
Interest receivable	16,863	26,545
Inventory	491,548	480,433
Prepaid expenses	32,188	34,239
Total Current Assets	2,445,520	2,662,822
Capital Assets	24,333,314	23,919,108
Less: Accumulated depreciation	(12,927,714)	(12,027,791)
Net Capital Assets	11,405,600	11,891,317
Board Designated Funds:		
Investment in transmission fund	278,448	400,000
Capital improvement fund	1,427,607	1,087,607
Retirement and severance fund	1,453,438	1,361,038
Self insurance fund	1,250,000	1,000,000
Total Board Designated Funds	4,409,493	3,848,645
Other Assets:		
Investment in transmission	151,161	-
Total Other Assets	151,161	-
Total Assets	\$ 18,411,774	\$ 18,402,784

See notes to financial statements

Independence Light and Power, Telecommunications

Statement of Net Assets

December 31, 2009 and 2008

LIABILITIES AND NET ASSETS:	2009	2008
Current Liabilities:		
Accounts Payable	\$ 610,628	\$ 550,619
Accrued wages payable	33,144	28,823
Accrued vacation and sick pay	837,142	734,712
Other accrued expenses	19,996	16,488
Current portion of long term debt	336,650	321,914
Total Current Liabilities	1,837,560	1,652,556
Other Liabilities:		
Accrued retirement insurance	503,341	506,401
Note payable - BankIowa	185,390	274,449
Electric revenue project note payable	4,475,507	4,796,767
Less: Current portion of long-term debt shown above	(336,650)	(321,914)
Total Other Liabilities	4,827,588	5,255,703
Net Assets:		
Unrestricted, board designated funds	6,160,083	5,449,235
Unrestricted	5,586,543	6,045,290
Total Net Assets	\$ 11,746,626	\$ 11,494,525

See notes to financial statements

Independence Light and Power, Telecommunications  
Statement of Revenues, Expenses and Changes in Net Assets  
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues:		
Sales to customers	\$ 9,371,690	\$ 8,963,269
Miscellaneous operating revenue	<u>78,302</u>	<u>86,839</u>
Total Operating Revenue	<u>9,449,992</u>	<u>9,050,108</u>
Operating expenses:		
Generation expenses	4,732,612	4,708,320
Distribution expenses	364,636	393,198
Customer account expenses	111,143	116,482
Administration and general expenses	1,088,791	901,871
Cable and internet expenses	1,600,829	1,463,439
Depreciation and amortization expenses	903,147	888,585
Benefits to community and city	<u>333,982</u>	<u>336,983</u>
Total Operating Expenses	<u>9,135,140</u>	<u>8,808,878</u>
Operating Income	314,852	241,230
Non-Operating Revenues (Expenses):		
Interest income	109,484	153,321
Interest expense	(211,176)	(222,939)
Gain (loss) on disposal of assets	(2,983)	(26,828)
Other revenue	<u>21,074</u>	<u>38,985</u>
Total Non-Operating Revenues (Expenses)	<u>(83,601)</u>	<u>(57,461)</u>
Changes in Net Assets	231,251	183,769
Net Assets, beginning of year	<u>11,494,525</u>	<u>11,310,756</u>
Prior period adjustment	<u>20,850</u>	<u>-</u>
Net Assets, end of year	<u>\$ 11,746,626</u>	<u>\$ 11,494,525</u>

See notes to financial statements

Independence Light and Power, Telecommunications

Statement of Cash Flows

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Operating income	\$ 314,852	\$ 241,230
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	903,147	888,585
Non-operating revenue	21,074	38,985
Increase from prior period adjustment	20,850	
(Increase) decrease in:		
Accounts receivable	(10,055)	(43,051)
Unbilled revenues receivable	137,930	(113,583)
Interest receivable	9,682	12,593
Inventory	(11,115)	43,939
Prepaid expenses	2,051	27,057
Increase (decrease) in:		
Accounts payable	60,009	66,939
Accrued wages payable	3,681	9,788
Accrued vacation and sick pay	103,070	77,410
Other accrued expenses	3,508	(4,072)
Accrued retirement insurance	(3,060)	(22,704)
Net cash provided by operating activities	<u>1,555,624</u>	<u>1,223,116</u>
Cash flows from capital and related financing activities:		
Additions to capital assets	(439,371)	(378,829)
Disposal of assets	(946)	21,434
Principal paid on long-term debt	(410,319)	(393,068)
Interest expense	(211,176)	(222,939)
Net cash used by capital and related financing activities	<u>(1,061,812)</u>	<u>(973,402)</u>
Cash flows from investing activities:		
Purchase of certificates of deposit	(3,600,000)	(3,400,000)
Redemption of certificates of deposit	3,400,000	3,000,000
Investment in transmission	(131,257)	-
Sale of real estate investment	-	12,922
Interest income	109,484	153,321
Net cash provided by investing activities	<u>(221,773)</u>	<u>(233,757)</u>
Net increase in cash and cash equivalents	272,039	15,957
Beginning cash and cash equivalents	<u>2,279,154</u>	<u>2,263,197</u>
Ending cash and cash equivalents	<u><u>\$ 2,551,193</u></u>	<u><u>\$ 2,279,154</u></u>

See notes to financial statements

Independence Light and Power, Telecommunications

Notes to Financial Statements

December 31, 2009 and 2008

**(1) Summary of Significant Accounting Policies**

The Independence Light and Power, Telecommunications, a municipal utility, is a subdivision of the City of Independence, which is a political subdivision of the State of Iowa. The Utility is considered a component unit of the City under Governmental Accounting Standards Board Statement Number Fourteen. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis and the Utility is governed by a separate Board of Trustees. Independence Light and Power, Telecommunications is a public utility providing electrical, cable, internet, and telephone services to the citizens of the City of Independence, Iowa.

The Utility's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity:**

For reporting purposes, Independence Light and Power, Telecommunications has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board have set forth criteria to be considered in determining financial authority. These criteria include appointing a voting majority of an organization's governing body and 1) the ability of the Utility to impose its will on that organization or 2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utility. The financial statements are the Enterprise Fund of Independence Light and Power, Telecommunications which is a component unit of the City of Independence.

Independence Telecommunications Utility is legally separate from the Electric Utility, but is financially accountable to the Electric Utility, or whose relationship with the Electric Utility is such that exclusion would cause the Electric Utility's financial statements to be misleading or incomplete. The Telecommunications Utility is governed by the same five-member Board as the Electric Utility, and appointed by the City Council.

**B. Basis of Presentation:**

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of the interfund activity has been removed from these statements.

The statement of Net Assets displays the Utility's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Utility's policy to use unrestricted resources first.

C. Measurement Focus and Basis of Accounting:

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred. The accounting records are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

In reporting its financial activity, the Utility applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Assets:

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents:

The Utility considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2009 and 2008, cash consisted of checking accounts, savings accounts, and certificates of deposit.

Cash and cash equivalents for cash flows statements purposes are as follows:

	<u>2009</u>	<u>2008</u>
Cash	\$ 941,700	1,030,509
Board designated funds	<u>4,409,493</u>	<u>3,848,645</u>
Total Cash	5,351,193	4,879,154
Less: Certificates of deposit – term longer than three months	<u>(2,800,000)</u>	<u>(2,600,000)</u>
Cash and Cash equivalents	<u>\$ 2,551,193</u>	<u>2,279,154</u>

Accounts Receivable and Unbilled Revenue:

Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual customer balances. Unbilled revenue is for the service consumed between periodic scheduled billing dates and is estimated and recognized as revenue in the period in which the service is provided.

Inventories:

The inventories are valued using average cost.

Board Designated Funds:

Board Designated Funds consist primarily of funds designated by the Board of Trustees for the improvement, replacement and expansion of capital assets, future investment in transmission, and future health insurance payments for retired employees. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

Capital Assets:

Property and equipment were recorded in 1954 at their appraised value with all subsequent additions recorded at cost. Normal maintenance and repairs are expenses, and major renewals and betterments are capitalized. If items of property are sold, retired, or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts, and any gain or losses thereon are reflected in the Statements of Revenues and Expenses. Depreciation is computed using the straight-line method.

Investments:

At December 31, 2009 and 2008, investments are stated at the lower of aggregate cost or market.

Revenue:

Billings to customers are based on meter readings at stated rates, and are recorded as revenue in the corresponding meter-reading period.

Income Taxes:

Independence Light and Power, Telecommunications is a subdivision of the State of Iowa and exempt from federal and state income taxes.

**(2) Cash and Investments**

Independence Light and Power, Telecommunications' deposits in banks at December 31, 2009 and 2008 were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

In order to offset rising transmission costs, the Board of Trustees, through and in conjunction with its membership in the Midwest Municipal Transmission Group (MMTG), on June 25, 2009 entered into a Joint Agreement as a participating municipal utility with Iowa Public Power Agency (IPPA) for investment rights in the construction or acquisition and ownership of transmission upgrades and additions to Mid American Energy Company's (MEC) transmission system. IPPA is to issue and sell bonds to finance the cost of each agreement and transmission assets are to be operated by MEC. The initial investment and ownership interest is \$122,148 and 8.891%, respectively. If, upon termination of this Joint Agreement, there remains any property or assets in which the parties own an undivided interest, said property or assets shall be disposed of on a pro-rate basis in accordance with the terms of the agreement.

On February 28, 2007, the Utility through and in conjunction with its membership in MMTG, also agreed to participate in the Brookings-Twin Cities Development Project Agreement with the Central Minnesota Municipal Power Agency (CMMPPA) for the purpose of pursuing Development work for a Transmission Project. This Transmission Project (herein after referred to as "the Project") is being undertaken to assist in the maintenance and enhancement of system reliability for electric customers in the upper Midwest region. This agreement addresses the Development phase of the Transmission Project and will be replaced with an agreement providing for ILPT's entitlement

and other related rights and arrangements pertaining to the Transmission Project once the development phase is completed. The initial agreement shall be for five years, but can be extended in one year increments until the Development work has been completed. Independence Light and Power, Telecommunications' is an "open participant" in this agreement, meaning that it does not participate in CMMPA's financing of the Development work and their "Participant Election Share" is 1.89%. Participants are responsible for their share of the monthly Development work costs, whether or not the Transmission Project is actually developed. ILPT's share of the Development work cost is to be \$248,648, of which \$29,012 had been invested as of December 31, 2009.

The carrying value and the approximate market value of the Utility's investments at December 31, 2009 was \$151,160.

**(3) Accounts Receivable**

As of December 31, this account consisted of the following:

	<u>2009</u>	<u>2008</u>
Accounts Receivable	\$ 822,113	810,093
Less: Allowance for doubtful accounts	( 58,344)	( 56,379)
Balance	<u>\$ 763,769</u>	<u>753,714</u>

**(4) Unbilled Revenues Receivable**

Unbilled revenues receivable consist of electric meter usage that has not been read or billed by the Utility. At December 31, 2009 and 2008, these amounts were \$199,452 and \$337,382, respectively.

**(5) Inventories**

At December 31, inventories consisted of the following:

	<u>2009</u>	<u>2008</u>
Fuel oil	\$ 125,178	133,653
Lube oil	2,445	1,197
Distribution	182,241	170,001
Generation	108,197	108,197
Cable and internet supplies	<u>73,487</u>	<u>67,385</u>
	<u>\$ 491,548</u>	<u>480,433</u>

**(6) Reserved Funds**

The reserved funds are amounts the Board has restricted for specific purposes.

Capital Improvement Fund – At the October 20, 1994 meeting, the Board approved the combining of the Improvement Fund and the Future Construction Fund and called it the Capital Improvement Funds. This fund is to be used for new construction projects and improvements. Monthly transfers to this fund are to be \$15,000. At the February 20, 1997 board meeting, the policy was changed to have \$20,000 transferred to this fund each month. At the February 24, 2005 board meeting, the policy was changed to have \$40,000

transferred to this fund each month. At the February 23, 2006 board meeting, the policy changed to have \$20,000 transferred to this fund each month. During 2009, monthly transfers totaled \$240,000 into the fund. Also during 2009, the Board approved a one-time transfer of \$250,000 into this fund from Unappropriated funds.

Retirement and Severance Fund – The Board of Trustees has reserved this to pay for future health insurance coverage for retired employees. It also helps fund the accrued vacation and sick leave for current employees. This fund is to equal the combined retirement and severance liabilities. \$7,700 is transferred into this fund each month. During 2009, \$92,400 was transferred into the fund.

Self Insurance Fund – The Board of Trustees has reserved the amounts in this fund to replace the distribution system that might be destroyed by a natural disaster. This reduces the amount of insurance premium that would be incurred if an outside insurer were paid for this coverage. Prior to October 1994, this fund was funded with all interest income received. At the October 20, 1994 board meeting, the policy was changed to have \$2,500 transferred to this fund each month. At the July 25, 1996 board meeting, the policy was changed retroactive to June 1996 to have \$15,000 transferred to this fund each month. In December 1996, the Board of Trustees approved an additional transfer of \$25,000 to the fund. At the February 20, 1997 board meeting, the policy was changed to have \$20,000 transferred to this fund each month. At the February 24, 2005 board meeting, the board approved a transfer of \$181,596 to this fund from the Retirement and Severance Fund, and approved capping this fund at \$1,000,000. During 2009, the Board approved a one-time transfer into this fund of \$250,000 from Unappropriated Funds.

At the April 19, 2007 Board of Director's meeting, it was approved to create a new restricted fund - Investment in Transmission. The funds will be used for future transmission capital investing. A transfer of \$400,000 was made at that time from Unappropriated funds to the Investment in Transmission fund. During 2009, \$121,552 was transferred back to Unappropriated funds and expended for the purpose of entering into a joint agreement with Iowa Public Power Agency (IPPA) to acquire electric transmission assets.

**(7) Capital Assets**

Capital Assets Not Being Depreciated:	<u>2009</u>	<u>2008</u>
Land	\$ 244,162	244,162
Construction in Progress	-	-
Total Capital Assets Not Being Depreciated	<u>\$ 244,162</u>	<u>244,162</u>
Capital Assets Being Depreciated:		
Telecommunications Outside Plant	\$ 2,292,442	2,251,471
Buildings and Improvements	104,015	104,015
Generation in Service	8,749,860	8,749,189
Distribution in Service	7,975,949	7,931,672
Office and Office Equipment	978,684	968,710
Small Tools	55,946	55,946

Transportation	802,891	798,777
Cable and Internet Equipment	<u>3,129,365</u>	<u>2,815,166</u>
Total Capital Assets Being Depreciated	24,089,152	23,674,946
Less Accumulated Depreciation	( <u>12,927,714</u> )	( <u>12,027,791</u> )
Net Capital Assets Being Depreciated	<u>11,161,438</u>	<u>11,647,155</u>
Net Capital Assets	<u>\$ 11,405,600</u>	<u>11,891,317</u>

**(8) Accrued Vacation and Sick Pay**

At December 31, 2009 and 2008, Independence Light and Power, Telecommunications had accrued vacation payable of \$77,024 and \$70,592, respectively. An employee may carry forward only five days of vacation from one vacation year to the next. An employee earns their vacation days on their anniversary date.

All full-time employees accrue sick leave at a rate of 2 days per month up to a maximum of two-hundred-eighty (280) days. Upon retirement, medical disability, or death, an employee will be paid up to fifty percent of 240 days of his or her accumulated sick leave. At December 31, 2009 and 2008, the accumulated sick leave was \$ 760,118 and \$663,880, respectively.

**(9) Accrued Retirement Insurance**

During 1986, the Board of Trustees voted to recognize the probable liability of retirement health insurance coverage by appropriating funds for this purpose, based on the life expectancy of each retiree. The amount of probable liability was determined using life expectancy tables and a variable health care inflation assumption and those amounts were placed in a long-term investment. The Utility will recognize the liability incurred and accordingly restrict the equivalent amount of cash. The criteria for determining eligibility includes years of service and employee age. The benefit is available to the spouse for up to three months after the death of the retiree. At December 31, 2009 and 2008, Independence Light and Power, Telecommunications had accrued retirement insurance of \$503,341 and \$506,401.

At a July 2004 Board of Trustees meeting, the Utility adopted a resolution stating that future retirees would not be provided retirement health insurance coverage. Current retirees and spouse will continue to be covered under the plan.

At December 31, 2009 and 2008, Independence Light and Power, Telecommunications covered 11 retired employees.

**(10) Pension and Retirement Benefits**

Independence Light and Power, Telecommunications contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary

information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA 50306-9117.

During the first half of 2009, plan members were required to contribute 4.10% of their annual covered salary and Independence Light and Power, Telecommunications was required to contribute 6.35% of annual covered payroll. Beginning July 1, 2009, plan members were required to contribute 4.30% and the Utility was required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The contributions paid to IPERS by Independence Light and Power, Telecommunications for the years ended December 31, 2009 and 2008 were \$76,902 and \$72,623, respectively, equal to the required contributions for each year.

#### (11) Long-Term Debt

On December 29, 2006, the Utility signed a loan agreement with BankIowa. The loan is payable from the revenue from the operation of the Utility. The loan was for \$436,409. Principal and interest payments are payable for 59 months in the amount of \$8,700 beginning on February 1, 2007, with a final installment of all remaining principal and interest due at maturity on December 1, 2011. At December 31, 2009 the balance of the loan was \$185,390.

The Utility issued an Electric Revenue Improvement and Refunding Note dated August 1, 2005. The balance at December 31, 2009 and 2008 was \$4,475,507 and \$4,796,767, respectively. Monthly payments are \$44,370 through August 1, 2020. On August 1 in each of the years 2012 and 2019, the rate will be adjusted to two thirds (67%) of the 7-year fixed advance rate plus 2%. The fixed advance rate is published by the Federal Home Loan Bank, Des Moines, Iowa. Currently, the note bears interest at 4.50% per annum.

The electric revenue note is a revenue note issued under the provisions of Chapter 384 of the Code of Iowa and, as such, the principal and interest are payable from the revenue from operations of the Utility. The details of the Utility's indebtedness are as follows:

Year Ending December, 31	Interest Rate	Principal	Interest	Total
2010	4.50	336,650	195,785	532,435
2011	4.50	352,116	180,319	532,435
2012	4.50	368,231	164,204	532,435
2013	4.50	385,246	147,189	532,435
2014	4.50	402,906	129,529	532,435
2015 - 2020	4.50	<u>2,630,358</u>	<u>258,454</u>	<u>2,888,812</u>
Total		<u>\$ 4,475,507</u>	<u>1,075,480</u>	<u>5,550,987</u>

The Utility reserves the right to prepay principal on this note in whole or in part at any time prior to and in any order of maturity on terms of par and accrued interest.

#### **(12) Related Party Transactions**

Independence Light and Power, Telecommunications provides electrical service to the City of Independence. During the years ended December 31, 2009 and 2008, the charges for this electrical service were \$320,313 and \$305,223. In addition, the City paid \$22,624 for meter reading.

During 2009 and 2008, Independence Light & Power, Telecommunications donated \$156,000 to the City of Independence.

The Utility has agreed to pay the City of Independence \$150,000 per year for a five year period for the purpose of economic development. The annual payments are due January 31<sup>st</sup>. The first payment was paid January 31, 2006.

#### **(13) Lease Agreements**

Independence Light and Power, Telecommunications has a Joint Use Contract with Qwest Corporation. Both parties own poles used by the other party. A lease of \$16.79 per pole is paid to the owner. The net amount, (Joint Use Poles owned by the Independence Light and Power, Telecommunications less the number of Joint Use Poles owned by Qwest Corporation) was 413 poles. During the years ended December 31, 2009 and 2008, Independence Light and Power, Telecommunications received \$8,798.

The Utility also has a Joint Use Contract with Mediacom. Both parties own poles used by the other party. A lease of \$16.79 per pole is paid to the owner. The net amount, (Joint Use Poles owned by the Independence Light and Power, Telecommunications less the number of Joint Use Poles owned by Mediacom) was 1,597 poles. During the years ended December 31, 2009 and 2008, Independence Light and Power, Telecommunications received \$26,814.

#### **(14) Commitments**

On March 2, 2006, the Utility signed a letter of intent to purchase power from Wisconsin Public Power, Inc. (WPPI). The letter of intent states the contract period will be from May 1, 2006 through December 31, 2037 with an average wholesale cost of power projected to be \$58.28/MWh for 2006. An official contract for service was approved and signed at the April 20, 2006 meeting of the board of directors.

#### **(15) Risk Management**

Independence Light and Power, Telecommunications is exposed to various risks of loss related to torts, theft, damages, and natural disaster. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage for the past three years.

**(16) Subsequent Event**

Independence Light and Power, Telecommunications was approved by the United States Department of Agriculture to receive \$300,000 for revolving loan funds. The Utility had to contribute \$60,000 of its own funds for the revolving loan as well. The total of \$360,000 is available for the Utility to make loans to customers for economic development. As the funds are paid back, they are available to loan out to other entities. Independence Light and Power, Telecommunication has committed the entire \$360,000 proceeds to be loaned to Buchanan County Health Center for their ambulance addition and remodeling project. As of the date of the audit report, no funds had been made available to disperse from the USDA.

**Required Supplementary Information**

Independence Light and Power, Telecommunications

Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets  
Budget to Actual (Cash Basis)

December 31, 2009

	Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Final to Actual Cash Basis Variance
Total Revenues	\$ 9,580,550	524,982	10,105,532	11,052,870	(947,338)
Total Expenditures	(9,349,299)	(334,733)	(9,684,032)	(10,622,106)	938,074
Net	231,251	190,249	421,500	430,764	(9,264)
Balance, Beginning of year	11,494,525	(9,807,663)	1,686,862	3,296,221	1,609,359
Prior period adjustment	20,850	-	-	-	-
Balance, End of year	<u>\$ 11,746,626</u>	<u>(9,617,414)</u>	<u>2,108,362</u>	<u>3,726,985</u>	<u>1,618,623</u>

See accompanying independent auditor's report.

**Independence Light and Power, Telecommunications**

**Notes to Required Supplementary Information – Budgetary Reporting**

**December 31, 2009**

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for their financial statements.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Disbursements did not exceed amounts budgeted at December 31, 2009.

### **Other Supplementary Information**

## Independence Light and Power, Telecommunications

## Treasurer's Balance

December 31, 2009

	Checking and Savings Accounts	Time Deposits	Total	Maximum Authorized Deposit
Security State Bank Independence, Iowa	\$ 454,572	200,000	654,572	4,000,000
Cash on Hand			-	
Deposits in transit			-	
Outstanding checks			-	
Balance			<u>654,572</u>	
BankIowa Independence, Iowa	1,316,733	3,400,000	4,716,733	4,000,000
Cash on Hand			800	
Deposits in transit			-	
Outstanding checks			<u>(20,912)</u>	
Balance			<u>4,696,621</u>	
Total			<u><u>\$ 5,351,193</u></u>	

See accompanying independent auditor's report.

## Independence Light and Power, Telecommunication

## Schedule of Operating Expenses

Years Ended December 31, 2009 and 2008

	2009	2008
Generation Expenses:		
Purchased power	\$ 4,323,537	\$ 4,287,279
Fuel oil expense	36,757	26,622
Natural gas - engines	119	120
Natural gas - boiler	20,940	39,332
Operating expenses	1,198	1,093
Generating vacation and sick leave	48,292	48,515
Supervision	113,220	108,937
Maintenance of generators and equipment	61,934	71,255
Miscellaneous generation expenses	126,615	125,167
	<u>4,732,612</u>	<u>4,708,320</u>
Distribution Expenses:		
Operation and maintenance of overhead	48,770	64,266
Operation and maintenance of underground	30,703	34,643
Operation and maintenance of transformers	1,825	2,074
Operation and maintenance of street lights	15,552	17,525
Operation and maintenance of security lights	3,733	3,439
Operation and maintenance of meters	7,507	9,309
Operation and maintenance of customer services	35,168	31,980
Operation and maintenance of traffic signals	5,734	8,327
Operation and maintenance of substation	546	630
Distribution supervision	85,431	83,181
General distribution labor	19,502	29,068
Distribution vacation and sick leave	44,763	44,719
Miscellaneous distribution expenses	65,402	64,037
	<u>364,636</u>	<u>393,198</u>
Customer Accounts Expense:		
Customer records and collections	84,702	84,645
Bad debt expense	4,509	10,451
Meter reading	21,932	21,386
	<u>111,143</u>	<u>116,482</u>

## Administration and General Expenses:

Office salaries	170,616	169,649
Office vacation and sick leave	60,191	57,181
Property insurance	76,372	80,093
Outside services	198,078	61,648
Office supplies, telephone, and postage	16,304	21,202
Employer FICA	70,097	68,378
Employer IPERS	58,961	56,163
Maintenance - general	6,568	10,898
Miscellaneous expense	56,393	52,998
Uniforms	4,485	7,738
Safety expenses and equipment	15,414	16,927
Employee benefits	288,864	223,411
Energy efficiency programs	19,627	34,576
Marketing	3,231	1,270
Transportation	43,590	39,739
	<u>1,088,791</u>	<u>901,871</u>
Cable and internet expenses	<u>1,600,829</u>	<u>1,463,439</u>
Depreciation and amortization expenses	<u>903,147</u>	<u>888,585</u>
Benefits to Community and City:		
Cash donations to city	156,000	156,000
Labor benefits to city	14,648	8,735
Community benefits	<u>163,334</u>	<u>172,248</u>
	<u>333,982</u>	<u>336,983</u>
Total Operating Expenses	<u>\$ 9,135,140</u>	<u>\$ 8,808,878</u>

See accompanying independent auditor's report.

Alan W. Flick, C.P.A.  
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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees  
Independence Light and Power, Telecommunications  
Independence, Iowa 50644

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the Independence Light and Power, Telecommunications, Independence, Iowa, as of and for the years ended December 31, 2009 and 2008, which collectively comprise the Utility's basic financial statements and have issued our reports thereon dated May 18, 2010. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Independence Light and Power, Telecommunications' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Independence Light and Power, Telecommunications' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Independence Light and Power, Telecommunications' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Utility's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. We consider item II-A-09 to be a significant deficiency. A significant deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independence Light and Power, Telecommunications' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Independence Light and Power, Telecommunications' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utility's responses, we did not audit Independence Light and Power, Telecommunications' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Independence Light and Power, Telecommunications and other parties to whom Independence Light and Power, Telecommunications may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Independence Light and Power, Telecommunications during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



RIDIHALGH, FUELLING, SNITKER, WEBER & CO., P.C., C.P.A.'S

May 18, 2010

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2009

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2009

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:** No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

II-A-09 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – Independence Light and Power is a small municipal utility with an office staff consisting of two billing clerks, one accounts payable clerk, one receptionist and an office manager. The billing clerks, accounts payable clerk and receptionist can receipt in cash and checks. Balancing the two cash drawers to the cash receipts software is rotated on a daily basis, depending on workload. The billing clerks prepare the deposit tickets. All cash customers are given a receipt and all others are asked if they want a receipt. A printed receipt is put in the cash drawer for all cash and checks received listing the dollar amount and becomes part of our permanent records. The office manager and billing clerks investigate any customer complaints regarding receipts. In a municipal utility, there are serious consequences for delinquent invoices, therefore, if a customer has paid their invoice and has not received credit for it they will probably file a complaint. Our software allows searches on a specific dollar amount paid and receipts can be physically looked at as they are filed by date received and batch in which they were entered. A software generated tape of the receipts is attached to the grouping.

The accounts payable clerk enters invoices and prepares checks. Invoices are approved by the general manager or assistant general manager. All checks require two signatures by either the general manager, the assistant general manager, or the office manager. The office manager reconciles the bank statement each month and prepares a report for the Board of Trustees. The Board of Trustees approves all payments. All checking account withdrawals and deposits are tied back to the accounting software.

All payroll timesheets are approved by department supervisors and is prepared by the office manager. The general manager approves timesheets for supervisors and reviews all deposit advises.

Conclusion – Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2009

**Part III: Other Findings Related to Statutory Reporting:**

III-A-09     Official Depositories – A resolution naming official depositories has been approved by the Utility Board. However, the maximum deposit amounts stated in the resolution were exceeded during the year ended December 31, 2009 at BankIowa.

Recommendation – Chapter 12C.2 of the Code of Iowa requires the Utility, by written resolution, to name each depository approved for depositing Utility funds and to specify the maximum dollar amount which may be kept on deposit at each depository. The Utility should increase the maximum dollar amount and monitor deposits amounts to ensure that deposits do not exceed stipulated maximum amounts.

Response – We will approve a resolution to increase the maximum depository amount.

Conclusion – Response accepted.

III-B-09     Certified Budget – Disbursements during the year ended December 31, 2009 did not exceed the amounts budgeted in the business type activities functions.

III-C-09     Questionable Disbursements – We noted no questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-09     Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.

III-E-09     Business Transactions – There were no business transactions between the Utility and Utility officials or employees.

III-F-09     Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

III-G-09     Board of Trustees Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-H-09     Revenue Notes – We noted no instances of noncompliance with the Electric Revenue Note provisions.

III-I-09     Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.

III-J-09     Telecommunication Services – We noted no instances of noncompliance with Chapter 388.10 of the code of Iowa.

Staff

This audit was performed by:

Gina E. Trimble, CPA  
Donald A. Snitker, CPA  
Gene L. Fuelling, CPA